

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 AGR-05

SAJ-01 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 SIL-01

PRS-01 L-03 /079 W

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R 180410Z MAY 76

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 344

INFO USLO PEKING

AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMEMBASSY SINGAPORE

LIMITED OFFICIAL USE SECTION 1 OF 2 HONG KONG 5635

E.O. 11652: N/A

TAGS: ETRD, CH, US

SUBJECT: US PARTICIPATION IN THE 1976 SPRING CANTON FAIR

REF: PEKING 756

SUMMARY: CHINA'S 39TH CANTON TRADE FAIR CLOSED ON MAY 15 WITH RECORD ATTENDANCE BY FOREIGN BUSINESSMEN BUT AN UNEVEN AND GENERALLY LOW LEVEL OF BUSINESS TRANSACTIONS. AMERICAN ATTENDANCE WAS DOWN ABOUT 20 PERCENT. THE VALUE OF BUSINESS BY AMERICAN FIRMS ALSO DROPPED, PERHAPS BY AS MUCH AS 50 PERCENT. SUPPLY SHORTAGES CONTRIBUTED TO THIS DECLINE, BUT THE FAILURE OF US METALS AND CHEMICAL DEALERS TO CONCLUDE HIGH-VALUE CONTRACTS WAS PARTICULARLY IMPORTANT. NOTABLE, TOO, WAS THE FAILURE OF AMERICAN FIRMS TO SELL AT THE FAIR. END SUMMARY.

1. CHINA'S 39TH CANTON EXPORT COMMODITIES FAIR CLOSED MAY 15. TO GENERALLY UNFAVORABLE REVIEWS. THE NCNA ATTENDANCE LIMITED OFFICIAL USE

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FIGURE OF 24,000 VISITORS, LOWER THAN THE 25,000 CLAIMED

FOR THE FALL FAIR, INCLUDED A RECORD NUMBER OF NON-HONG KONG/MACAO BUSINESSMEN AND REPRESENTS A STRONG INCREASE OVER THE 1975 SPRING FAIR, WHERE ESTIMATED ATTENDANCE WAS 15,000. OVERALL BUSINESS WAS DOWN CONSIDERABLY FROM THE HIGH LEVEL OF THE FALL 1975 FAIR, HOWEVER. NCNA CLAIMED ONLY THAT THE TOTAL VALUE OF TRANSACTIONS AT THIS SPRING FAIR SURPASSED THE LEVEL OF THE 1975 SPRING FAIR. AFTER A ROCKY START DURING WHICH BUSINESSMEN IN MANY LINES WERE QUOTED IMPOSSIBLY HIGH PRICES OR SHRUGGED OFF WITH A STATEMENT THAT NO SUPPLY AT ALL WAS AVAILABLE, TRADE PICKED UP CONSIDERABLY IN THE SECOND HALF OF THE FAIR, AND SOME BUSINESSMEN WHO REMAINED AT THE FAIR WERE ABLE TO DO GOOD BUSINESS, MAKING THE FINAL TOTAL HIGHER THAN THE DEPRESSED LEVEL LAST SPRING.

2. PRC EXPORT PRICES, UP OVER THE FALL FAIR LEVEL, NEVERTHELESS REMAINED GENERALLY COMPETITIVE, AND THE PRINCIPAL FACTOR LIMITING BUSINESS DONE AT THE FAIR WAS THE LIMITED AVAILABILITY OF POPULAR ITEMS IN THE FACE OF STRONG DEMAND FROM WESTERN IMPORTERS ALL EAGER FOR A LARGER SLICE OF A SLOWLY GROWING SUPPLY. MOST AMERICAN IMPORTERS WERE TROUBLED BY THESE SUPPLY LIMITATIONS. NEW CUSTOMERS HAD EVEN GREATER THAN NORMAL DIFFICULTY IN INITIATING VOLUME PURCHASES, AND ESTABLISHED CUSTOMERS OFTEN FAILED TO GET THE FULL INCREASE FOR WHICH THEY HAD HOPED.

3. USLO'S OBSERVATIONS DURING THE LATTER HALF OF THE FAIR REINFORCE OUR IMPRESSION REPORTED REFTTEL THAT THESE SHORTAGES OFTEN REFLECTED CHANGES IN CHINESE MARKETING PRACTICES RATHER THAN PRODUCTION POLICY. IN AN APRIL 28 CONVERSATION WITH USLO OFFICER, FAIR DEPUTY SECRETARY GENERAL KAO SAID THAT CHINA WOULD CONTINUE TO EXPAND FOREIGN TRADE. HE ADDED THIS WOULD REQUIRE CONTINUED EXPANSION OF EXPORTS TO PAY FOR INCREASED IMPORTS AND THIS GOAL OF EXPORT EXPANSION WOULD BE PURSUED THROUGH A WIDE VARIETY OF CHANNELS: THE CANTON FAIR, MINI-FAIR AND DELEGATIONS AND EXHIBITIONS ABROAD.

4. THE SPRING FAIR WAS ALSO CHARACTERIZED FOR ALL LIMITED OFFICIAL USE

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PARTICIPANTS BY A MARKED RELUCTANCE ON THE PART OF THE CORPORATIONS WHICH NORMALLY CONCLUDE IMPORT CONTACTS DURING THE FAIR TO MAKE SIZABLE PURCHASES OR TO SIGN CONTRACTS FOR DELIVERY PERIODS EXCEEDING THREE MONTHS. UNLIKE THE SHORT SUPPLY SITUATION, AN ECONOMIC ORIGIN FOR THIS RELUCTANCE IS NOT APPARENT, AND IT MAY HAVE A POLITICAL BASIS. AMERICAN SELLERS, TOO, WERE ADVERSELY AFFECTED BY THE CHINESE TENDENCY TO MAKE ONLY MINIMAL

PURCHASES. THE FOLLOWING IS USLO'S GENERAL OVERVIEW OF US ACTIVITY AT THE SPRING FAIR. THIS WILL BE SUPPLEMENTED BY A GENERAL FAIR SUMMARY WHEN THE REPORTING OFFICER RETURNS TO PEKING.

5. PRC TRADE OFFICIALS TOLD USLO THAT A RECORD NUMBER OF INVITATIONS WERE ISSUED TO US FIRMS. NEVERTHELESS, THE LONG-TERM RISE IN US ATTENDANCE SUFFERED ITS FIRST CHECK. USLO OFFICERS AND REPRESENTATIVES OF THE NATIONAL COUNCIL FOR US-CHINA TRADE MET REPRESENTATIVES OF 294 US FIRMS (OR SUBSIDIARIES ACTING ON US PARENT COMPANIES' BEHALF). ON THIS BASIS WE ESTIMATE TOTAL US ATTENDANCE AT ABOUT 325 COMPANIES AND 475 AMERICANS, A DECREASE OF 20 PERCENT FROM FALL 1975. THE VALUE OF TOTAL BUSINESS TRANSACTED FELL SUBSTANTIALLY FROM THE \$60 MILLION LEVEL REACHED AT THE 1975 SPRING AND FALL FAIRS TO AN ESTIMATED \$25-30 MILLION THIS SPRING.

6. THE NATIVE PRODUCE CORPORATION RECORDED THE ONLY INCREASE OVER THE FALL FAIR IN THE LEVEL OF BUSINESS TRANSACTIONS WITH THE US. LARGE PURCHASES OF DOWN AND FEATHERS WERE MADE IN ANTICIPATION OF A WORLDWIDE SHORTAGE IN 1977 BY PURO COMPANY (\$1 MILLION), MILBERN FOAM (\$900,000), CHINA PRODUCTS NW (\$300,000), AND OTHERS. TEA PRICES WERE RELATIVELY LOW THIS SPRING AND SEVERAL US FIRMS MADE PURCHASES. THE CHICAGO CORPORATION BOUGHT \$650,000 OF GUM ROSIN, SELLING AT ONLY 20-21 CENTS PER POUND, FOR RESALE IN THE US AND THE BAKER BRUSH COMPANY BOUGHT \$200,000 OF BRISTLES. SOME TEA AND BRISTLE BUYERS MADE BUYING TRIPS TO SHANGHAI AFTER PURCHASING IN CANTON. TOTAL US BUSINESS EXCEEDED \$5 MILLION.

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7. TEXTILE CORPORATON SALES TO US BUYERS WERE DOWN CONSIDERABLY FROM THE RECORD \$13.7 MILLION OF THE FALL FAIR. THE BULK OF 1976 PRODUCTION HAD BEEN SOLD BEFORE THE OPENING OF THE FAIR, EITHER AT THE FALL FAIR OR DURING INDIVIDUAL BUYERS' TRIPS TO PEKING DURING THE WINTER. MANY OF THE CONTRACTS SIGNED AT THE SPRING FAIR WERE FOR DELIVERIES IN THE FIRST QUARTER OF 1977. SOME POPULAR ITEMS (DENIMS, FLANNELS, CORDUROY) WERE COMPLETELY SOLD OUT, BUT MANY OLD CUSTOMERS WERE NEVERTHELESS ABLE TO MAKE SUBSTANTIAL PURCHASES IN OTHER LINES. NEW CUSTOMERS, HOWEVER, FACED GREAT DIFFICULTIES IN INITIATING QUANTITY BUYING. CORPORATION OFFICIALS SAID THAT BOTH THE LEVEL OF BUSINESS AND THE NUMBER OF US BUYERS WAS LARGER THAN THE SPRING FAIR 1975. IMPORTANT PURCHASES WERE MADE BY LESLIE FAY IN GARMENTS (\$1 MILLION), WESSEX INTERNATIONAL IN

CASHMERE SWEATERS (\$600,000), W. GAMBY & SONS IN GREIGE
GOODS (\$700,000), AND WELLMAN INC. IN RAW SILK
(\$250,000).

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CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 AGR-05

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R 180410Z MAY 76
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 345
INFO USLO PEKING
AMEMBASSY TOKYO
AMEMBASSY TAIPEI
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8. TEXTILE PRICES GENERALLY WERE RAISED ONLY MODERATELY
OVER THE FALL FAIR AND REMAINED VERY COMPETITIVE ON
THE US MARKET. ALMOST ALL US BUYERS WERE INTERESTED
IN INCREASING THEIR LEVEL OF PURCHASES, AND MANY
WERE INVITED TO RETURN TO CHINA IN JULY FOR NEGOTIATIONS
OF CONTRACTS FOR DELIVERIES IN THE FIRST AND SECOND
QUARTERS OF 1977. BY THE END OF THE FAIR, THE INITIAL
HARD LINE TAKEN BY CHINATEX NEGOTIATORS ON LABELING HAD
BEEN MODIFIED, AND CHINATEX WAS ACCEPTING SEPARATE TAGS
OF EQUAL SIZE FOR THE US AND CHINESE BRAND NAMES, A
PROCEDURE AGREEABLE TO MOST US IMPORTERS.

9. US PRUCHASES OF MINERALS AND METALS WERE ALSO DOWN
SHARPLY FROM FALL 1975'S LEVEL OF \$9.5 MILLION TO ABOUT

\$5 MILLION, A DECREASE AT LEAST PARTLY ACCOUNTED FOR BY THE SALES OF TUNGSTEN AND ANTIMONY CONCLUDED BY PRC METAL DELEGATION IN THE US AND EUROPE THIS WINTER LIMITED OFFICIAL USE

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AND SPRING. LARGE PURCHASES WERE MADE BY ACLI (\$2 MILLION, INCLUDING \$500,000 OF WOLFAM), WELLMAN INC. (\$150,000 OF TUNGSTEN), ASBURY GRAPHITE (\$200,000), AND TENNANT (\$1 MILLION OF TIN). ALSO NOTABLE WAS THE PURCHASE OF \$700,000 OF ANTIMONY BY ASSOCIATED METALS AND MINERALS, WHOSE REP SAID THIS WOULD BE THE FIRST DIRECT DELIVERY OF PRC ANTIMONY ORE TO THE US. AS IN THE FALL, US METAL DEALERS FAILED TO CONCLUDE SALES CONTRACTS IN CANTON.

10. ACCORDING TO LIGHT INDUSTRY OFFICIALS, US PRUCHASES FROM THIS CORPORATION EXCEEDED THE SPRING FAIR 1975, BUT THE USLO ESTIMATE OF \$2.5-3 MILLION IN PURCHASES IS 15-20 PERCENT BELOW LAST FALL'S RECORD LEVEL. OVER \$1 MILLION IN ARTS AND CRAFTS PRUCHASES WERE MADE, A FIGURE WHICH COULD HAVE BEEN RAISED GREATLY IN VIEW OF MODERATE PRC PRICES INCREASES AND STRONG US DEMAND. CORPORATION OFFICIALS DESCRIBED THEIR POLICY AS ONE OF DELIBERATE EXPANSION AIMED AT MAINTAINING A SELLER'S MARKET THROUGH PERIODS OF FLUCTUATING WESTERN DEMAND. THE RESULTING SHORTAGE OF POPULAR ITEMS PRODUCED ANOTHER DIFFICULT FAIR FOR NEWCOMERS TO THE MARKET. LARGE PURCHASES WERE MADE BY PIER 1 IMPORTS (\$400,000) AND WELLMAN INC. (\$150,000). ON THE LIGHT INDUSTRIAL PRODUCTS SIDE OF THE CORPORATION, UNITED CHINA & GLASS CO. BOUGHT \$1.2 MILLION IN PORCELAIN TABLEWARE AND THE LATEX GLOVE CO. BOUGHT \$100,000 IN WORK GLOVES. NO SALES OF US PULP WERE MADE.

11. THE BIGGEST DROP IN US BUSINESS TRASACTIONS OCCURRED IN THE CHEMICAL CORPORATION, WHERE OFFICIALS SAID ONLY 12 CONTRACTS HAD BEEN SIGNED WITH US COMPANIES THROUGH MAY 14. ALTHOUGH ACLI CONTRACTED FOR \$700,000 IN PURCHASES AND SMALLER CONTRACTS WERE SIGNED BY ACETO, ESSO, DOW, FALLEK, AND ROHM AND HAAS, THE TOTAL VALUE OF PURCHASES DID NOT REACH THE \$2-3 MILLION LEVEL OF THE FALL. MORE IMPORTANT WAS THE DECREASE IN PURCHASES BY THE CHEMICAL CORPORATION. CHEMICALS SOLD BY US FIRMS AMOUNTED TO \$8.5 MILLION LAST FALL, BUT ONLY MINIMUM QUANTITIES WERE SOLD THIS SPRING. ESSO (\$100,000) AND FALLEK (\$75,000) WERE AMONG LIMITED OFFICIAL USE

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THE FEW US COMPANIES TO SIGN SALES CONTRACTS.

12. DESPITE SUBSTANTIALLY HIGHER PRICES, THE STRONGEST CONSTRAINT ON US BUSINESS WITH THE CEROILFOOD CORPORATION WAS LIMITED SUPPLY RESULTING FROM SUCH DIVERSE CAUSES AS A POOR SHRIMP CATCH, OVERSELLING AT THE FALL FAIR OF CHILLIES AND OTHER SPICES AND, FOR CANNED GOODS, PERHAPS LIMITED CANNING FACILITIES. CORPORATION OFFICIALS SAID TOTAL US BUSINESS EXCEEDED \$1.5 MILLION AT THIS FAIR AND PREDICTED INCREASED SALES AT THE COMING FALL FAIR. HE ALSO NOTED THAT THIS FIGURE EXCEEDED THE TOTAL FOR THE SPRING FAIR 1975 IF ONE EXCLUDED THE LARGE SUGAR DEAL MADE AT THAT FAIR AND SINCE CANCELLED. US IMPORTERS BOUGHT AT LEAST \$450,000 OF FROZEN SHRIMP AND SUBSTANTIAL QUANTITIES OF HONEY, RABBIT MEAT AND CANNED MANDARIN ORANGES.

13. AS USUAL, US BUSINESS TRANSACTIONS WITH THE MACHINERY CORPORATION WERE FEW, ALTHOUGH A NUMBER OF US FIRMS USED THE OPPORTUNITY OFFERED BY THE FAIR TO MAKE SALES PRESENTATIONS. MANY CAME TO CHINA ON INVITATIONS ISSUED TO TRADING COMPANIES OR REPRESENTATIVES. OIL WELL EQUIPMENT SELLERS INCLUDED BAKER TRADING, ARMCO'S NATIONAL SUPPLY CO., HALTER MARINE SERVICES (SUPPLY SHIPS), LOCKHEED (OFFSHORE EQUIPMENT), AND WESTERN GEAR CORPORATION. AVIATION TECHNOLOGY WAS INTRODUCED BY UNITED TECHNOLOGIES, LOCKHEED, CESSNA, AND PIPER. THE SANFORIZED CO. HAD ENCOURAGING TALKS WITH THE TEXTILE CORPORATION CONCERNING TEXTILE TREATMENT MACHINES WORTH \$1.5 MILLION EACH. TRADELINE INC. BEGAN EXPLORATORY DISCUSSIONS CONCERNING VARIOUS HIGH TECHNOLOGY ITEMS WHICH MIGHT BECOME ATTRACTIVE TO THE PRC IF A LIBERALIZED US EXPORT CONTROL POLICY IN THE FUTURE WERE TO ALLOW THEIR SALE. AGAIN, NO REPRESENTATIVE FROM THE TECHNICAL IMPORT CORPORATION WAS PRESENT AT THE FAIR.

14. THIS TELEGRAM CONTAINS COMMERCIALLY SENSITIVE INFORMATION WHICH SHOULD NOT BE DISCUSSED OUTSIDE OF THE US GOVERNMENT.
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